

Housing Finance Authority of Leon County

The Lakes at San Marcos Proposed Multifamily Development

Financial Advisor Analysis
Prepared by
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September 6, 2004

Financial Advisor Analysis

Project Overview: The Lakes at San Marcos Apartments is a proposed 312-unit multifamily, mixed income rental community to be located in the southwest quadrant of Capital Circle SE and Woodville Highway, approximately two miles west of the Southwood town center. The development consists of 60 one bedroom, one bath units, 192 two bedroom, two bath units and 60 three bedroom, two bath units. The unit sizes appear spacious in comparison to those found in other tax credit developments throughout the State. Seventy five percent of the units will be set aside for households earning 60% or less of Leon County Area Median Income ("AMI") and the remaining units will be made available at market rates with no income or rent restrictions. The applicant, CMP CHP San Marcos, Ltd. (the "Applicant"), is requesting approval from the Housing Finance Authority of Leon County ("Leon HFA" or "Authority") for the issuance of up to \$16,800,000 in tax-exempt bonds. The Authority is being asked to request allocation from the State of Florida's pool of allocation that is expected to become available on November 16, 2004. Therefore, the request for allocation will not affect any requests by the Leon HFA from the 2005 regional pool.

Ownership Structure and Participants: The applicant is CMP CHP San Marcos, Ltd. and the general partner of the partnership is GP San Marcos, LLC. The contact information of the general partner is as follows:

C. Breck Kean, Manager
241 Peachtree Street #300
Atlanta, GA 30303
(404) 965-3973
bkean@capitol-development.com

Developer Experience: CHP Housing Development, LLC has experience developing approximately 4,147 affordable units (both new construction and rehab) using a variety of resources including tax-exempt bonds and housing credits. The developments have been primarily in Georgia, however, they have developed properties in Bradenton and Fort Walton Beach, Florida.

GP Experience: GP San Marcos, LLC has experience developing approximately 3,707 affordable units (including both new construction and rehab) using a variety of resources including tax-exempt bonds and housing credits.

Management Agent: Camden Housing Group, LLC ("Camden"), as management agent, has limited experience as an affordable housing manager. Their stated experience includes four properties with 564 total affordable units with service over a period of one to two years. Two of the properties have housing credits and bonds, one has project-based section 8 and one has only tax exempt bonds as a subsidy. Camden has provided a letter indicating that they have been approved as a manager for programs administered by the Florida Housing Finance Corporation.

General Contractor: Camden Construction Group, LLC, based in Atlanta, Georgia, will serve as General Contractor for the development. The General Contractor has experience in building 2,114 units and rehabilitating 240 units over a seven-year period. All units were located in the State of Florida.

Other Professionals: All other members of the development team listed in the application, including the architect, general engineer, attorney, and accountant all listed an acceptable level of experience.

Development Description: The Lakes at San Marcos is a proposed 312-unit new construction family rental development located in the southwest quadrant of Capital Circle, SE and Woodville Highway, Tallahassee, FL. The following is the proposed breakdown of the unit mix:

<u>Unit Type</u>	<u># of Affordable Units</u>	<u># of Market Units</u>	<u>Sq Footage</u>
1 Bedroom/ 1 Bath	45	15	888 sq feet
2 Bedroom/ 2 Bath	144	48	1228 sq feet
3 Bedroom/ 2 Bath	45	15	1466 sq feet

The unit sizes are well within the Authority's stated minimum requirements of 700, 900 and 1150 square feet for one, two and three bedroom units respectively. In addition, the units meet the Authority's requirement for number of bathrooms per unit.

The residential units are housed in sixteen garden style apartment buildings. The exterior of all residential buildings and the clubhouse will be a combination of brick, stone and cementitious siding. The exterior facades will have a combination of wood framed balconies and enclosed sunrooms. Breezeways will have cementitious siding walls with steel stairs accessing upper floor units. The development consists of 439,692 gross square feet and 385,485 square feet of heated space and is located on 23.5 acres.

The site adjoins the National Forest and the St. Mark's Bike Trail. The applicant plans to incorporate a 2.15 High Quality Successional Forest area, four man-made lakes and dedicated access to the St. Marks Trail. Multiple gathering/picnic areas will be provided throughout the site for residents to meet and socialize.

Excerpt from the Application regarding the location of the development: "The lakes at San Marcos is ideally located within the rapidly growing southeast quadrant of the City. Proximity to employment is excellent. The site is less than five miles from the Central Business District, the State Capitol Complex and Florida State University. The site is approximately three miles from Florida A&M and the Tallahassee Regional Airport. The most significant influence on the site is the development of Southwood, the 3200 acre master planned, mixed use community that is less than two miles east. The success of Southwood has been the catalyst for high quality residential, commercial and retail development in southeast Tallahassee. The State Government Office Complex in Southwood is less than two miles from the site and is an excellent employment center for future residents at the Lakes at San Marcos. Proximity to schools and shopping is excellent with two Publix anchored centers, Frank Nims Middle School and Richards High School within a two mile radius. Mass transit is available along Capital Circle and Woodville Highway."

The construction features and amenities as stated in the application also meet the Authority's minimum requirements (a score of at least 25 points). The Applicant has selected the following items from the list of options:

- Mini-Blinds inside each unit (3 points)
- Gated Community with carded entry or security guard (4 points)
- Combination of brick and cementitious siding (3 points)
- Fire sprinklers in all units (5 points)

- Exterior lighting in open and common areas (3 points)
- Double compartment kitchen sink (1 point)
- Laundry Hook-ups and space for washer/dryer inside each unit (3 points)
- Cable or phone line hook-up for computer internet use inside each unit (5 points)

The amenities as stated within the application meet the Authority's requirement of a minimum score of 16 points. The following is a list of the amenities selected by the applicant, each of which is worth two points:

- Exercise room with appropriate equipment
- Clubhouse (size is 5,700 square feet and includes exercise room, business center and meeting space)
- Swimming pool
- Playground/tot lot
- Car care area (for car cleaning/washing)
- Childcare facility located within three miles of the property
- Public transportation located within one half mile of the property
- Two or more parking spaces per unit

Financing: The developer is proposing a direct placement of the bonds to MMA Financial, LLC ("MMA"). The bonds will not be rated or credit enhanced. The Authority's policy allows for the issuance of unrated and unenhanced debt if the bonds are sold to an institutional investor. MMA has provided the Applicant with a firm commitment for construction and permanent financing for the Lakes at San Marcos development. The bonds will initially bear interest at a variable rate of the BMA index rate plus 3.00%. As of September 1, 2004, the BMA index rate was 1.31% and the historical ten year average has been approximately 3.00%. Following conversion of the loan from construction to permanent, the rate on the bonds will be fixed at 6.45%. The bonds will amortize over a 40-year period following stabilization. MMA will also serve as the tax credit syndicator for the transaction. The following is selected information regarding MMA Financial, LLC:

- **MMA Financial (also commonly referred to as "MuniMae"):** Municipal Mortgage & Equity, LLC is a publicly traded company listed on the New York Stock Exchange and offers both debt and tax credit syndication services. Shareholders recently received a yield of 7.70% (primarily tax exempt) based on the 2004 second quarter distribution. MuniMae has an on-balance sheet portfolio of tax-exempt bonds totaling over \$1.031 billion as of year-end 2003. The company invests in all types of affordable multifamily housing bonds and also invests in bonds secured by student housing, community development districts and assisted living developments. In addition to syndicating tax credits and investing in tax-exempt bonds, MuniMae also originates and services multifamily mortgages (both its own mortgages and Fannie Mae and Freddie Mac securitized mortgages).

The financing complies with the Authority's guidelines given that MMA is an institutional investor with significant experience investing in affordable rental housing.

Financial Feasibility: Based upon the sources and uses of funds provided in the application, there are sufficient sources of funds to construct the development. It should be noted that the Applicant is deferring 84% of the developer fee indicating that there is not a lot of room for costs to increase. The projected debt service coverage ratio is 1.15X (and 1.18X prior to payment of the annual Authority Fee) and is in the acceptable range for tax credit financings. The debt

coverage calculation presumes 8% vacancy on tax credit units and 7% vacancy on market units. For the Authority's information we have included information as reported by Florida HFC on other affordable developments in Leon County. The development team members have an acceptable level of experience as shown previously in this memo.

Conformance of the development with legal restrictions governing the issuance of the Bonds: Based on information provided in the application, the development appears to comply with legal restrictions governing issuance of the bonds. Prior to closing of the issue, it will be a requirement that Bond Counsel render an opinion to that effect.

Status of the Permitting Process: Many of the required approvals and permits for the San Marcos development have been obtained. The following have been submitted and have yet to be approved:

- Site Plan Approval for the Lakes at San Marcos lot (Lot 4)
- FDOT Driveway Connection Permit
- Environmental Management Permit for Lakes at San Marcos
- FDEP Stormwater Permit for Lot 4
- Building Permits for Apartment Buildings

Phase I Environmental Assessment: A Phase I Environmental Site Assessment update was prepared by Southern Earth Sciences, Inc. for Camden Management Partners on March 29, 2004. The assessment revealed no evidence of recognized environmental conditions in connection with the property.

Public Purpose: The developer has agreed to abide by a set aside of 40% of the units for households at or below 60% of Area Median Income ("AMI") for a period of 50 years. The Applicant will enter into an Extended Use Agreement to receive housing credits which will require that 75% of the units be set aside for persons at or below AMI. The term of the Extended Use Agreement is expected to be 30 years. The following is a chart showing the proposed rental rates for the development:

Unit Type	Market or Affordable	# of Units	Net Rent
1 Bedroom/1 Bath	Affordable	45	\$595
1 Bedroom/1 Bath	Market	15	\$750
2 Bedroom/2 Bath	Affordable	144	\$641
2 Bedroom/2 Bath	Market	48	\$850
3 Bedroom/2 Bath	Affordable	45	\$726
3 Bedroom/2 Bath	Market	15	\$950

The Authority encourages developers to set aside units beyond the Federal requirement. Although it is good public policy to encourage deeper income targeting, RBC Dain Rauscher is concerned that setting aside additional units for tenants at lower income levels on the Lakes at San Marcos development may adversely affect the transaction's financial feasibility. The reason being that any units set aside for households at lower income groups will reduce the rental revenue which will, in turn, either reduce the debt service coverage ratio below the level of 1.15X or reduce the amount of debt that can be supported. Although MMA's financing commitment allows a minimum debt service coverage ratio of 1.12X, RBC Dain Rauscher believes that it is prudent to have a minimum debt service coverage ratio of at least 1.15X. With 84% of developer fee deferred for this financing, any reduction in the amount of debt proceeds or equity would

minimize available sources for any cost overruns or shortfall in capitalized interest during lease-up. However, the Authority's goal could be achieved if additional subsidy were made available to the development. Therefore, the Authority may want to consider requiring consent rights to any subsidy that is provided to the development in the future. In this way, the Authority could evaluate at the time that subsidy is made available whether the financing could support deeper income targeting. Alternatively, perhaps deeper income targeting could be encouraged on a best efforts basis. Public Policy requirements are certainly determined by the Authority, and it is not the role of the Financial Advisor to comment on them, however, RBC Dain Rauscher felt it appropriate to mention the financial implications of any public purpose requirements.

The Applicant has agreed to all mandatory public purpose requirements set forth by the Authority which include the following:

- Regularly scheduled visits by health care professionals, with services including the following: health screening, flu shots, vision and hearing tests each quarter;
- Resident Activities arranged, managed and paid for by the Applicant;
- On site voter registration arranged by the Applicant and provided by the County Supervisor of Elections;
- Financial Counseling provided at least quarterly;
- Computer Training with at least one computer provided for every 50 units and classes provided at least quarterly;
- Homeownership Opportunity Program providing for 5% of gross rent to be applied toward a down payment (provided that resident may be suspended from program for non-compliance with lease);
- First Time Homebuyer Seminars to be provided at no cost to the resident on site;
- Welfare to Work or Self-Sufficiency Programs offered by implementing marketing strategies that actively seek residents who are participating in or have successfully completed training;
- After School Program provided to children during after-school hours on-site and at no charge to the resident;
- Literacy Training offered at no cost to the resident on weekly basis on-site to residents requesting a tutor.

Recommendation: Based upon the information provided in the application, RBC Dain Rauscher recommends approval of the financing.